

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01

RSC-01 USIA-06 PRS-01 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 COME-00

FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 L-02 H-01 PM-03

SAM-01 SAJ-01 /086 W

----- 062570

P R 070348Z FEB 75

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC PRIORITY 559

SECDEF WASHDC

INFO CINCPAC

AMEMBASSY CANBERRA

C O N F I D E N T I A L BANGKOK 2194

CINCPAC PASS TO POLAD

AMEMBASSY CANBERRA FOR MR. FIELDS

E.O. 11652: GDS

TAGS: MARR, TH

SUBJECT: TAX RELIEF FOR DOD CONTRACTORS

REF: A. STATE 012468; B. BANGKOK 1244

1. RECEIPT OF THE AMBASSADOR'S LETTER TO THE PRIME MINISTER WITH THE ENCLOSED DRAFT AGREEMENT AS PROPOSED IN REF A HAS BEEN FORMALLY ACKNOWLEDGED BY THE RTG. THE MINISTRY OF FOREIGN AFFAIRS HAS ADVISED THAT OUR PROPOSAL IS BEING STUDIED. WE HAVE ALSO LEARNED THAT THE MATTER IS BEING STAFFED WITHIN THE MINISTRY OF DEFENSE. WE DO NOT ANTICIPATE AN EXPEDITIOUS REPLY. SINCE PROCUREMENT ACTION FOR THE FOLLOW-ON CONTRACTS IS BEING HELD IN ABEYANCE AWAITING RESOLUTION OF THIS ISSUE, WE CANNOT  
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WAIT INDEFINITELY FOR A RESPONSE. CONSEQUENTLY WE INTEND

TO TAKE THE INITIATIVE SOON AFTER THE NEW GOVERNMENT IS FORMED TO REOPEN THE DIALOGUE.

2. WE SHALL USE THE DRAFT AGREEMENT AND THE REASONS ADVANCED IN THE AMBASSADOR'S LETTER AS THE STARTING POINT IN OUR NEGOTIATIONS. NEVERTHELESS, WE DO NOT EXPECT THE RTG TO ACCEPT THE DRAFT AGREEMENT AS TABLED. WE ANTICIPATE THAT THE THAI WILL REITERATE THEIR PAST ARGUMENTS AND AGAIN POINT OUT THAT EVEN WITH PAYMENT OF TAXES WE WILL BE ABLE TO OBTAIN THE MAINTENANCE SERVICES FROM THAI ENTITIES AT LESS OR AT LEAST NOT MORE THAN THE COST WE ARE PRESENTLY PAYING.

3. IF A MEMORANDUM OF UNDERSTANDING AS PROPOSED PROVES NON-NEGOTIABLE, WE WOULD PROPOSE AS A FALL-BACK A GOVERNMENT-TO-GOVERNMENT OR SERVICE OF LEVEL ARRANGEMENT WHEREBY THE RTG, PROBABLY THROUGH MOD, WOULD PROVIDE THE SERVICES ON A REIMBURSABLE BASIS. THIS WOULD NOT BE WITHOUT PRECEDENT. AS AN EXAMPLE, OUR LONG-STANDING ARRANGEMENT WITH THE THAI FOR SECURITY GUARDS AT ALL OF OUR INSTALLATIONS INDICATES THAT A SERVICE LEVEL ARRANGEMENT IS WORKABLE. WITH MOD AS THE SUPPLIER, IT, AS AN AGENCY OF THE RTG, WOULD NOT BE SUBJECT TO TAXES. THUS REGARDLESS OF THE MEANS BY WHICH MOD OBTAINED THE SERVICES OR THE TAX STATUS OF THE ULTIMATE SUPPLIER, THE PRINCIPLE OF TAX EXEMPTION OF US APPROPRIATED MUTUAL DEFENSE FUNDS WOULD BE PRESERVED. THE PROBABILITY THAT MOD WOULD DERIVE A PROFIT FROM THE ARRANGEMENT SHOULD INSURE THAT THE SERVICES WOULD BE SUPPLIED IN A REASONABLY EFFICIENT MANNER. ADDITIONALLY, SUCH AN ARRANGEMENT WOULD BE IN KEEPING WITH THE ACTUAL HOST/TENANT RELATIONSHIP THAT EXISTS IN THE OPERATION OF OUR BASES. FURTHERMORE, THIS SOLUTION FALLS WITHIN THE RANGE OF OPTIONS ALREADY PUT FORTH BY THE RTG, AND IN CONNECTION WITH WHICH THE RTG HAS ASSERTED THAT THE COST TO THE US WOULD BE NO MORE AND PROBABLY LESS THAN WHAT WE ARE NOW PAYING.

4. WE WOULD RETAIN FOR USE IF NECESSARY THE OPTION OF DOING THE WORK ORGANICALLY BY USING US MILITARY PERSONNEL AND DIRECT HIRE LOCAL NATIONALS. THIS OPTION WOULD SERVE

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AS AN ADDED INCENTIVE FOR THE RTG TO PERFORM THE WORK SATISFACTORILY IN ORDER TO RETAIN THE BUSINESS.

5. SINCE THE CURRENT CONTRACTS ARE RUNNING OUT WE CANNOT DELAY OUR RESOLUTION OF THIS MATTER. ENQUIRIES HAVE ALREADY BEEN RECEIVED FROM BOTH INTERESTED CONTRACTORS AND RESPECTIVE DOD PROCUREMENT AGENCIES AS TO WHAT IS GOING TO BE DONE AFTER THE CURRENT CONTRACTS

EXPIRE. BECAUSE OF THIS TIME CONSTRAINT, WE MUST  
PROCEED WITH A DEFINITE APPROVED PLAN. CONSEQUENTLY  
YOUR IMMEDIATE ATTENTION TO THIS MATTER IS REQUESTED.

6. THIS PROPOSAL RESULTED FROM EXTENSIVE DISCUSSIONS  
AMONG THE EMBASSY-MACHTAI AND MR. FIELDS. THIS EMBASSY-  
MACHTAI MESSAGE WAS DRAFTED WITH THE ACTIVE ASSISTANCE  
OF MR. FIELDS, WHO FULLY AGREES WITH ITS CONTENTS.  
KINTNER

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NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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